SASKATCHEWAN GOVERNMENT GROWTH FUND III LTD.

2003 Annual Report

Creating economic wealth and diversification through investment

of immigrant investor capital in Saskatchewan

INDEX

Fund Profile 1

Message to Investors 2

Investment Profiles 3

Management Discussion and Analysis 5

Management's Responsibility for Financial Reporting 9

Auditors' Report 10

Financial Statements 11

Five Year Financial Summary 22

Corporate Information 23

FUND PROFILE

Saskatchewan Government Growth Fund III Ltd. ("SGGF III" or the "Fund") is a government-administered venture capital fund pursuant to the Immigration Regulations, 1978 (Canada), as amended. It was formed to enable immigrant investors to invest in businesses operating in Saskatchewan and facilitate the investors' qualification as Canadian permanent residents under the Immigrant Investor Program.

FINANCIAL HIGHLIGHTS

- SGGF III incurred a loss of $424,000 in 2003, resulting in an accumulated deficit of $5.9 million.
- Since the inception of SGGF III in 1995, investments made by the Fund total $26.1 million.
- Income from investments and portfolio investments for the year was $178,000, compared with $447,000 in 2002.
- The principal amount repaid on Notes at maturity was increased to $160,000 in 2003 from $150,000. An additional payment was made to investors who had been paid a lower amount when their Notes matured.

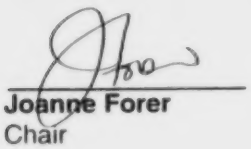
MESSAGE TO INVESTORS

The priority of Saskatchewan Government Growth Fund III Ltd. in 2003 continued to be the liquidation of its remaining investments to provide funds for payments to Noteholders at maturity of their Notes.

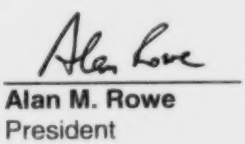
Payments to Noteholders on maturity of the Notes were set at $150,000 in 2002 based on forecasts of cash expected to be available from disposal of investments and scheduled maturities of Notes. This ensures that all investors are treated equally on the maturity of their Notes. During 2003, the payment at maturity was increased to $160,000 based on the cash flow available to the Fund. The Fund periodically reviews its forecasts of cash flows. If the assumptions underlying current forecasts prove to be correct, an additional payment to those Noteholders whose Notes have already matured may be possible in 2005.

During 2003, the Fund incurred a loss of $424,000, resulting in an accumulated deficit of $5.9 million. As a result of investment losses in the current and prior years, it is unlikely that SGGF III will be able to repay the full principal amount of the Note obligations to investors.

In 2004, SGGF III will continue to actively manage its remaining investments with a view to achieving the best liquidation proceeds available in the prevailing circumstances so that additional payments can be made to investors whose Notes have matured. As significant new developments occur, such information will be provided to the Noteholders.



Joanne Forer
Chair



Alan M. Rowe
President

February 25, 2004

INVESTMENT PROFILES

The following are profiles of investments held by SGGF III during 2003, including the principal amount invested at December 31, 2003 and a description of the companies' operations. The date of the initial investment in each company is noted in parentheses.

Big Sky Farms Inc. (January 1996)

$3,000,000 common shares

Big Sky Farms, headquartered in Humboldt, Saskatchewan, operates a number of farrow-to-finish hog operations in Saskatchewan. These operations are among the largest hog production facilities in western Canada.

BelAir Energy Corporation (December 1997)

BelAir Energy Corporation was a publicly-traded (TSX Venture: BEC) company headquartered in Calgary, Alberta. The Company is involved in the acquisition, exploration and development of natural gas and crude oil producing properties in Alberta and Saskatchewan. SGGF III sold its remaining investment in BelAir during 2003 on the takeover of the Company by Purcell Energy Corporation.

PEL Industries Inc. (July 1998)

PEL Industries is located in Swift Current, Saskatchewan. The Company manufactures agricultural-related products that assist in the handling and movement of grain. These products include grain vacs, grain drops, aeration fans, air seed blowers, chaff spreaders, and flexible harrow drawbars. The Company repaid its loan in 2003.

Points North Leasing Inc. (April 1998)

Points North, with headquarters at Points North Landing, Saskatchewan, owns aircraft, buildings, equipment and vehicles that are leased to a freight forwarding business serving northern Saskatchewan. During 2003, the assets securing SGGF III's loans to the Company were refinanced or sold, and SGGF received the related proceeds in payment of loans owing. SGGF's remaining security ranks second or lower behind other creditors of the Company.

Prairie Sulphate Corporation (August 1996)

$1,144,915 loans, preferred shares, and common shares

Prairie Sulphate Corporation is located at Alsask, Saskatchewan. The Company manufactures potassium sulphate fertilizer, a specialty product used in the care of chloride sensitive plants such as citrus trees, tobacco, and golf course greens. The Company negotiated a restructuring of its financing with its lenders in 2003, and a portion of SGGF III's loans were converted to equity. However, the Company continues to experience financial and operating difficulties.

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Star Biotech Inc. (January 1998)
$52,284 common shares

Star Biotech Inc. is a Saskatoon-based biotechnology company using advanced technologies to develop and produce high value-added, bio-engineered vaccines for animals and humans. In 2000, SGGF III's debt position was converted to shares and the Company sold its assets for a combination of cash and equity and royalty interests in other companies. SGGF III's recovery on this investment is dependent on Star Biotech selling its equity and royalty interests.

CAJON Leasing (December 2001)
$99,557 loans

CAJON, located in Regina, leases vehicles and other assets to Saskatchewan Crown corporations and other government-related entities.

Background

Saskatchewan Government Growth Fund III Ltd. ("SGGF III" or the "Fund") is an immigrant investor fund which operates in accordance with the regulations of the federal Immigrant Investor Program (the "IIP"). The Fund began commercial operations in 1994 when it accepted its first subscription deposits. The Fund is financed by subscriptions received from immigrant investors. The objective of the Fund is to invest the proceeds of subscriptions in eligible businesses in Saskatchewan for a five year period as required by the IIP. This allows the immigrant investor to satisfy the investment requirements of the IIP for a Canadian-resident visa.

Obligations to investors

SGGF III's activities are financed by immigrant investors who have subscribed for unsecured, subordinated promissory notes ("Notes") offered through an Offering Memorandum. The interest rate for a Note is 2%. Obligations under the Notes are subordinate to all other liabilities of SGGF III and repayment is dependent on the proceeds on liquidation of investments and all other available liquidity in excess of other liabilities.

The Notes mature five years from the date of issue. The IIP requires that the maturity date of a Note be extended if, and for so long as, less than 70% of the amount of the Note is invested in the active business operations of eligible businesses in Saskatchewan.

SGGF III was closed to new subscription applications on July 31, 1997.

At December 31, 2003, obligations to investors totalled $10.29 million (2002 – $15.1million), comprised of $750,000 representing three Notes (2002 - $7.0 million; 28 Notes) which have not yet matured, and $9.54 million representing 106 Notes (2002 - $8.1 million; 81 Notes) on which principal payments totalling $160,000 (2002 - $150,000) each have been paid to investors.

The remaining obligations to investors mature in 2004.

The Fund has prepared cash flow projections which indicate that timing differences exist between planned liquidations of investments and scheduled investor repayments as Notes become due. In order to treat all investors equally, the payment on Notes at maturity was initially reduced to $150,000. In 2003, the payment was increased to $160,000. The payment of any amount in addition to the initial payment at maturity is dependent on the liquidation of investments, many of which are in private companies as required by the IIP. These investments typically have more risk than other types of investments. Any forecast of when such investments will be liquidated reflects a best judgment based on current information, and involves a number of risks and uncertainties and other factors that may cause actual results to differ materially from the forecast. If the assumptions underlying current forecasts prove to be correct, payment of additional amounts may be possible in 2005; however, based on current forecasts, it is unlikely that SGGF III will be able to repay the full principal amount of the Note obligations to investors.

Obligations to investors (continued)

SGGF III continues to actively manage its remaining investments with a view to achieving for investors the best liquidation proceeds available in the prevailing circumstances.

Total interest expense on obligations to investors in 2003 was $243,000 (2002 - $380,000).

Investments

The investment policy of SGGF III reflects the requirements imposed by both the IIP and the Offering Memorandum through which Notes were offered to investors. To meet these requirements, SGGF III has established a target initial investment allocation consisting of:

- a maximum of 50%, and a minimum of 30%, invested in small and medium-sized enterprises ("SMEs") in Saskatchewan;
- a maximum of 30%, and a minimum of 20%, invested in loans to support infrastructure projects of the Province of Saskatchewan, and its agencies, municipalities and similar institutions; and,
- the balance invested in cash or liquid debt securities.

As investments are divested over time, the actual portfolio mix changes. Investments in SMEs and loans to support infrastructure qualify as "eligible businesses" for purposes of the IIP.

The following table sets out the investments of the Fund by type at December 31 in each year:

	2003			2002		
	No.	**$ millions**	**%**	No.	$ millions	%
Small and medium-sized enterprises						
Debt investments	**1**	**0.3**	**4.6**	3	3.1	27.9
Equity investments	**3**	**3.9**	**68.6**	4	3.6	32.0
Total*	**3**	**4.2**	**73.2**	7	6.7	59.9
Infrastructure loans	**1**	**0.1**	**1.7**		2.3	21.0
Cash and portfolio investments		**1.4**	**25.1**		2.1	19.1
		5.7	**100.0**		11.1	100.0
Provisions for losses		**(0.9)**			(1.2)	
Net book value		**4.8**			9.9	
Fair value		**3.3**				

*Note: The total number of SME investments represents the total number of companies. In some cases, an investment in both debt and equity instruments of the same company may have been made.

Since its inception in 1994, SGGF III has invested $15.8 million in SME investments and $10.3 million in loans to support infrastructure.

Investments (continued)

Investment income in 2003 totalled $178,000, compared with $447,000 in 2002. The decrease reflects a lower average balance of investments outstanding during the year.

Provisions for losses on investments totalled $136,000.

Management

SGGF III is managed by the Saskatchewan Government Growth Fund Management Corporation (SGGF MC) under a contract which provides for a management fee not to exceed 3% of the net assets of the Fund. SGGF MC has contracted administration and investment advisory services from Crown Capital Partners Inc. ("CCPI"), a private, national investment advisor based in Regina, Saskatchewan, and has retained subadvisors to provide investment advisory services. CCPI is paid a monthly fee for its services and will receive a performance fee based on the retained earnings, if any, of SGGF III after all investor obligations are repaid in full and all investments have been liquidated. The subadvisors are paid a performance fee based on the performance of the investments managed by each of them.

Administration expense for the Fund totalled $223,000 in 2003, compared with $377,000 in 2002. The total administration costs, excluding adjustments to accruals for future performance-based fees, represented 3.5% (2002 – 2.6%) of weighted average total assets.

Results of operations

During 2003, the Fund incurred a loss of $424,000, compared with a loss of $578,000 in 2002. The loss resulted from the fact that net investment income, which was lower than 2002 because of non-performing investments and a reduction in total assets of 50% as payments are made on obligations to investments, was insufficient to cover interest and administration costs of the Fund. During 2003, investment returns on weighted average total assets, before provisions for losses, were 2.5%. Provisions for losses were 1.9%, interest expense was 3.4%, and all other expenses were 3.1%.

At December 31, 2003, the Fund had an accumulated deficit of $5.9 million, compared with a deficit of $5.4 million at December 31, 2002.

Outlook and risks and uncertainties

The priority of SGGF III is the management of its investment portfolio to maximize returns and to provide for liquidation of investments to satisfy the obligations to investors at maturity of their Notes. Additional investments in SMEs will be made only to maximize the value of existing SME investments.

Outlook and risks and uncertainties (continued)

The investment allocation of the Fund which is prescribed by the IIP and Offering Memorandum significantly influences the returns available to the Fund. Investments in SMEs, which can represent up to 50% of the Fund's investments, provide an opportunity for higher returns, but also carry a higher risk of losses than other investment types, and a greater challenge to achieving liquidity at the precise time that Notes mature. On the other hand, the balance of investments which consist of liquid securities and loans to finance infrastructure, are relatively low risk, but also provide low returns that reflect the lower risk exposure.

The significant risks and uncertainties which affect the Fund relate to market risk, credit risk, interest rate risk, and liquidity risk. These risk factors are described in note 10 to the financial statements. The Fund manages these risks to the extent possible; however the factors may affect the ability of the Fund to repay its Notes at maturity. The Fund has no sources of financing the repayment of its Notes other than the proceeds received on liquidation of its investments.

Future accounting changes

Changes in generally accepted accounting principles which are to be implemented no later than fiscal years beginning July 1, 2004 will result in SGGF III carrying investments in the Statement of Financial Position at fair value. The change in fair value during the year will be recognized through the Statement of Operations. The fair value of investments as at December 31, 2003 has been reported in the notes to the financial statements, and SGGF III expects to adopt the new accounting policy in its fiscal year ending December 31, 2004.

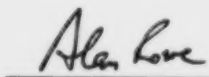
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The President and fund manager of the Saskatchewan Government Growth Fund III Ltd. are responsible for management of the Fund. The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and necessarily include amounts which are based on informed judgement and management estimates. Financial data presented elsewhere in this annual report is consistent with that in the financial statements.

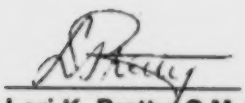
Management's responsibility includes ensuring the integrity and objectivity of financial information. Management maintains an appropriate system of internal accounting and administrative controls, policies and procedures to provide reasonable assurance that all transactions are authorized, financial records are complete and accurate, and assets are safeguarded against loss.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board has established an Audit Committee to review the Fund's accounting policies and financial statements prior to their presentation to the Board for approval. The Audit Committee also reviews the internal controls of the Fund, and meets regularly with the auditors. The Board has reviewed and approved these financial statements.

Deloitte & Touche LLP, the Fund's independent auditors, have examined the financial statements of the Fund. Their responsibility is to conduct an independent and objective audit and to report on the fairness of presentation of the Fund's financial position, results of operations and cash flows as shown in the financial statements. The Auditors' Report outlines the scope of their examination and their opinion.



Alan M. Rowe, C.A.
President



Lori K. Pretty, C.M.A.
Crown Capital Partners Inc.

February 25, 2004

AUDITORS' REPORT

To the Shareholder of Saskatchewan Government Growth Fund III Ltd.:

We have audited the statement of financial position of Saskatchewan Government Growth Fund III Ltd. as at December 31, 2003, and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

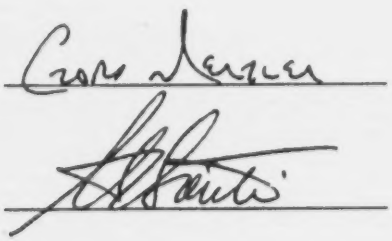
Regina, Saskatchewan
February 10, 2004

Saskatchewan Government Growth Fund III Ltd.
(Incorporated under *The Business Corporations Act* of Saskatchewan)
Statement of Financial Position
As at December 31

	2003	2002
Assets		
Cash	**$ 942,341**	$ 1,633,811
Portfolio investments (Note 4)	**496,510**	486,445
Accounts receivable and accrued income	**2,867**	16,567
Investments (Note 5)	**3,357,410**	7,753,407
	$ 4,799,128	$ 9,890,231
Liabilities and Shareholder's Deficiency		
Accounts payable and accrued liabilities (Note 6)	**$ 7,368**	$ 49,321
Commissions payable	**22,250**	35,750
Accrued interest payable to investors	**320,530**	122,282
Subscription deposits (Note 7)	**25,010**	25,010
Obligations to investors (Note 8)	**10,290,000**	15,100,000
	10,665,158	15,332,363
Share capital (Note 9)	**2,000**	2,000
Deficit	**(5,868,030)**	(5,444,132)
	(5,866,030)	(5,442,132)
	$ 4,799,128	$ 9,890,231

See accompanying notes to the financial statements.

On behalf of the Board:



Gordon Mertler
Director

Lloyd Boutilier
Director

Saskatchewan Government Growth Fund III Ltd.
Statement of Operations and Deficit
For the Year Ended December 31

	2003	2002
Revenues		
Interest from cash and portfolio investments	**$ 69,834**	$ 133,609
Income from investments	**108,095**	313,374
	177,929	446,983
Provision for credit losses	**553,261**	75,257
Allowance for unrealized (gains) losses on public equities	**(417,631)**	56,875
	135,630	132,132
Net revenue	**42,299**	314,851
Expenses		
Administration (Note 11)	**223,305**	377,093
Interest on obligations to investors	**242,892**	379,764
Amortization of deferred costs	**-**	135,638
	466,197	892,495
Net loss	**(423,898)**	(577,644)
Deficit, beginning of year	**(5,444,132)**	(4,866,488)
Deficit, end of year	**$(5,868,030)**	$(5,444,132)

See accompanying notes to the financial statements.

Saskatchewan Government Growth Fund III Ltd.
Statement of Cash Flows
For the Year Ended December 31

	2003	2002
Cash flows from operating activities		
Net loss	**$ (423,898)**	$ (577,644)
Adjustments:		
Amortization of deferred costs	**-**	135,638
Provision for credit losses	**553,261**	75,257
Allowance for unrealized (gains) losses on public equities	**(417,631)**	56,875
Net change in non-cash balances related to operations (Note 12)	**156,495**	(412,245)
Cash flows from operating activities	**(131,773)**	(722,119)
Cash flows from investing activities		
Purchase of portfolio investments	**(496,510)**	(486,445)
Sale of portfolio investments	**486,445**	-
Disbursements on investments	**(55,772)**	(64,893)
Repayments from investments	**4,316,140**	3,607,737
Cash flows from investing activities	**4,250,303**	3,056,399
Cash flows from financing activities		
Repayment of obligations and subscription deposits	**(4,810,000)**	(9,025,000)
Cash flows from financing activities	**(4,810,000)**	(9,025,000)
Net decrease in cash	**(691,470)**	(6,690,720)
Cash, beginning of year	**1,633,811**	8,324,531
Cash, end of year	**$ 942,341**	$ 1,633,811
Interest paid during the year	**$ 44,644**	$ 759,082

See accompanying notes to the financial statements.

Saskatchewan Government Growth Fund III Ltd.
December 31, 2003

1. Status of the Corporation

Saskatchewan Government Growth Fund III Ltd. ("SGGF III") was incorporated in October 1994 under *The Business Corporations Act* (Saskatchewan) and has been accepted as a government administered venture capital fund under the federal government's Immigrant Investor Program ("IIP"). Under this program, SGGF III was established to raise $35,000,000 through a note offering. Each note is a 2% unsecured, subordinated debt instrument with a principal amount of $250,000, repayable in five years provided that 70% of the proceeds are invested in eligible businesses ("Notes") throughout the five year period. SGGF III commenced commercial operations in 1994. The marketing period for SGGF III ended July 31, 1997.

The Confidential Offering Memorandum ("Memorandum") and the IIP prescribe various conditions that qualify an investment as an eligible business, including a requirement that the business be Saskatchewan based and have assets, including assets of associated companies, of less than $35 million.

As stated in the Memorandum, the Government of Canada and the Government of the Province of Saskatchewan offer no guarantees or assurances on the financial performance of SGGF III or of a return of an investor's original investment. Neither government will be liable for any loss or damages suffered by an investor as a result of an investment in the Notes.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following are considered significant:

Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from the current estimates. These estimates are reviewed quarterly and, as adjustments become necessary, they are reported in the Statement of Operations and Deficit in the period in which they become known.

Portfolio investments

Government of Canada Treasury Bills ("T-Bills") are valued at cost.

Investments

Investments include debt investments in private companies and equity investments in private and public companies. Income from debt investments is recognized as earned and income from equity investments is recognized when received.

2. Significant accounting policies (continued)

Debt investments are carried at cost, net of provisions for credit losses.

Provisions for credit losses are established on impaired debt instruments ("loans"). A loan is considered to be impaired if, as a result of a deterioration in credit quality, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more is usually assumed to be impaired. Other factors that are considered in determining whether a loan is impaired include the overall credit quality of the borrower and the fair value of the underlying security. When a loan becomes impaired, recognition of interest income ceases. A provision for specific credit losses is established for impaired loans to reduce their value to the estimated fair value of the security underlying the loan. If the credit quality of the loan subsequently improves a provision is reduced or reversed.

Investments in publicly traded equities are carried at the lower of cost and market where market is determined as the average closing market price over the last 20 trading days prior to the financial statement date, with adjustment to reflect lack of market liquidity.

Investments in equities in private companies are carried at the lower of cost and, where a loss in value that is other than temporary has occurred, net realizable value. Investments that are evaluated as possibly being subject to a loss in value are assessed periodically based on appropriate criteria, including past operating results of the investee, financial outlook of the investee, recent capital transactions, and their associated value, between the investee and arm's length parties, and liquidity or going concern problems of the investee.

When a decline in the value of an equity investment in a private company is no longer considered to be temporary, the investment is written down through a provision and is carried at the written down value until disposal of the equity investment.

During the year, generally accepted accounting principles changed to limit the situations where investee companies over which an entity has significant influence are not consolidated. SGGF III continues to meet the requirements and therefore investments which SGGF III intends to dispose of in due course are not consolidated. The ability to account for investments in this manner will cease in October 2004.

Fair values for publicly-traded securities are determined with reference to quoted closing market prices. For investments which are not publicly-traded, fair values are determined by management on the basis of the expected realizable value of the investments if they were disposed of in an orderly manner over a reasonable period of time. There is no active secondary market for many investments which are not publicly-traded, and there is considerable uncertainty and a potentially broad range of outcomes with respect to the future cash flows from these investments. Valuations of such investments are subject to a number of assumptions and uncertainties that may cause actual values realized on disposal to differ materially from the fair value estimated at any particular time.

2. Significant accounting policies (continued)

Commissions payable

According to the terms of a marketing agreement entered into by SGGF III, a commission is payable to the independent marketing agent selling the Note upon the issuance of the investor's immigrant visa.

Obligations to investors

Obligations to investors represent the Notes issued to investors of SGGF III. Their investment helps to satisfy a portion of their visa requirements under the IIP. Interest to the maturity date on Notes is accrued at an annual rate of 2% from the date of Note issuance and is paid annually on December 31 and at maturity; thereafter, interest is accrued on any remaining balance outstanding.

3. Provisions of the IIP

Minimum holding period and maturity of the Notes

A Note is issued to evidence receipt of the full subscription amount on the date that at least 70% of the subscription amount has been invested in eligible businesses. Each Note is scheduled to mature five years from such date, provided SGGF III maintains at least 70% of the Note continuously invested in the active business operations of eligible businesses for five years following the issuance date. The IIP contains provisions that require the maturity date of a Note be extended if, and for such period that, a minimum of 70% of the Note amount ceases to be invested in the active business operations of eligible businesses.

4. Portfolio investments

Security	Rate %	Maturity Date	Par $	**2003 Carrying Value $**	2002 Carrying Value $
T-Bill	2.77	2/12/04	510,000	**496,510**	-
T-Bill	2.94	4/12/03	500,000	**-**	486,445
				496,510	486,445
Fair value				**508,419**	486,445

5. Investments

	2003	2002
Debt instruments	**$ 361,345**	$5,429,131
Equity instruments	**3,936,381**	3,559,821
Provision for credit losses	**(940,316)**	(817,914)
Allowance for unrealized losses on public equities	**-**	(417,631)
	$3,357,410	$7,753,407
Fair value	**$1,830,000**	

5. Investments (continued)

Included in investments is $1,198,169 (2002 – $2,588,501) of impaired investments, against which the accumulated provision for credit losses is $940,316 (2002 - $817,914), upon which income is not accrued. During the year $430,859 (2002 - $8,327) of investments and costs have been written off.

In 2002, equity investments included publicly traded shares at a cost of $507,537, with an aggregate market value of $85,849.
During the year, investments decreased as follows:

	2003	2002
Balance, beginning of year	**$ 7,753,407**	$11,428,384
New investments	**55,772**	63,884
Book value of divestments	**(4,316,140)**	(3,608,812)
Investments and costs written off	**(430,857)**	(8,327)
Net change in provision for credit losses	**(122,403)**	(64,847)
Net change in allowance for unrealized losses on public equities	**417,631**	(56,875)
Balance, end of year	**$ 3,357,410**	$ 7,753,407

6. Accounts payable and accrued liabilities

Included in accrued liabilities in 2002 is a provision of $30,967 for future fees payable to an investment subadvisor under the terms of its investment services agreement with SGGF III. These amounts are payable to the investment subadvisors upon liquidation of the portfolio under their management and upon achievement of certain performance targets.

7. Subscription deposits

Subscription deposits are reclassified as obligations to investors upon Note issuance.

8. Obligations to investors

Notes - 2% unsecured subordinated notes.

The obligation at December 31 is:

	2003	2002
109 Notes (2002 - 109 Notes)	**$10,290,000**	$15,100,000

The obligation is comprised of 3 Notes (2002 – 28) with a principal amount of $250,000 and 106 Notes (2002 – 81) with a remaining principal amount of $90,000 (2002 - 100,000).

The remaining Notes outstanding with a principal balance of $250,000 mature in 2004.

8. Obligations to investors (continued)

Obligations under the Notes are subordinate to all other liabilities of SGGF III and repayment is dependent on the proceeds on liquidation of investments and other available liquidity in excess of other liabilities. The Notes are irrevocable except in the case of a visa refusal.

As a result of losses on investments and expected liquidity shortfalls in the investment portfolio that were identified in 2002, SGGF III reduced repayments on each Note that matured beginning in January 2002 to $150,000. In 2003, this amount was increased to $160,000. Interest due on the remaining principal amount of each Note on which the principal has been partially repaid is accrued.

SGGF III has a significant deficit and it is unlikely that the proceeds from the remaining investments will be sufficient to repay the remaining principal amounts in full. It is not known when payments on the remaining obligations will be made.

9. Share capital

The authorized common share capital of SGGF III at December 31 is:

Class A common shares - an unlimited number of voting common shares. Holders of the Class A common shares are not entitled to receive dividends.

Class B common shares - an unlimited number of voting common shares. Holders of the Class B common shares are entitled to receive dividends.

The issued common share capital at December 31 is:

	2003	2002
2,000 Class A common shares	**$2,000**	$2,000

10. Risk management

SGGF III's primary business is the raising of capital from immigrant investors and placing these funds in new and expanding Saskatchewan businesses. This entails exposure to market risk, credit risk, interest rate risk, and liquidity risk. These risk factors may impact upon SGGF III's ability to repay its Notes at maturity.

Market risk

Market risk is the risk that the fair value of an investment may be affected by the ability of an investee company to profitably distribute its products. Some of the companies in which SGGF III invests are dependent upon a single product or industry. SGGF III manages this risk through careful due diligence prior to committing funds to the investment and by diversifying its investments across various industry sectors.

10. Risk management (continued)

Credit risk

Credit risk is the risk that an investee will fail to perform its obligations. Concentration of credit exposure may arise given that SGGF III restricts its investments to businesses operating in Saskatchewan and therefore all investments are subject to a similar general economic environment. In addition, changes in commodity prices and foreign currency exchange rates may significantly affect the financial position of some investees. SGGF III conducts thorough due diligence prior to committing to an investment and actively monitors the financial health of its investees on an on-going basis.

Interest rate risk

Interest rate risk is the risk that SGGF III's earnings will be affected by fluctuations in interest rates. SGGF III manages this risk through carefully monitoring and matching the duration of its portfolio investments and investments with the duration of its obligations to investors.

Liquidity risk

Liquidity risk is the risk that SGGF III will encounter difficulty in liquidating its investments at the time it is required to repay its Notes. Due to the nature of some of SGGF III's investments, the timing of cash flows from its investments may not exactly match the payments owing under SGGF III's Notes. SGGF III carefully monitors the duration of its investments. However, these timing differences may require SGGF III to reduce or delay the payments owing on its Notes at maturity.

Fair value - obligations to Investors

No secondary market for the Notes exists. Due to the unique features associated with the Notes, the calculation of a fair value with appropriate reliability is impractical. The risk factors that affect the fair value of investments, as described above, also affect the fair value of the obligations to investors. Repayment of the Notes at maturity is dependent upon the value and liquidity of investments at that time.

11. Administration

Under the terms of a management agreement, expiring in 2004, between SGGF III and Saskatchewan Government Growth Fund Management Corporation ("SGGF Management Corporation"), SGGF Management Corporation administers the assets of SGGF III with the assistance of a manager that performs fund administration and investment management together with several investment subadvisors. SGGF Management Corporation does not guarantee the financial performance of SGGF III. All services provided to SGGF III are charged on a fee for service basis. The costs billed to the fund by SGGF Management Corporation are as follows:

	2003	2002
Manager's fees	$205,921	$351,567
General administration	17,019	5,897
Directors' fees and expenses	9,473	10,348
Legal and professional	21,859	21,956
	254,272	389,768
Provision for manager's profit share	(30,967)	(12,675)
	$223,305	$377,093

12. Net change in non-cash balances related to operations

	2003	2002
Accounts receivable and accrued income	$ 13,700	$ 46,808
Accounts payable and accrued liabilities	(41,953)	(76,815)
Commissions payable	(13,500)	-
Accrued charges payable to investors	198,248	(382,238)
	$156,495	$(412,245)

13. Income Taxes

A provincial Crown corporation, SGGF Management Corporation, owns all of the issued shares of SGGF III. Therefore, SGGF III is income tax exempt.

14. Commitments

The total amount of investments approved but not yet disbursed in 2002 was $456,928.

15. Related party transactions

Included in these financial statements are amounts resulting from transactions with SGGF Management Corporation pursuant to a management agreement referred to in Note 11. Account balances resulting from these transactions are included in the Statement of Financial Position and are settled on normal trade terms. Total fees charged to SGGF III by SGGF Management Corporation amounted to $254,272 (2002 - $389,768). Total fees payable to SGGF Management Corporation at December 31, 2003, and included in the above, are $7,368 (2002 – $13,705).

FIVE YEAR FINANCIAL SUMMARY

Saskatchewan Government Growth Fund III Ltd.
(in thousands of dollars)

Financial Position
As at December 31

	2003	2002	2001	2000	1999
Assets					
Cash	$ 942	1,634	8,325	4,456	3,890
Portfolio investments	497	486	-	4,000	4,000
Investments	3,357	7,753	11,428	17,817	19,452
Other assets	3	17	199	695	1,358
Total assets	$ 4,799	9,890	19,952	26,968	28,700
Liabilities and Deficit					
Obligations to investors	$ 10,635	15,247	24,655	17,600	28,983
Other liabilities	30	85	161	184	245
Deficit	(5,866)	(5,442)	(4,864)	(816)	(528)
Total liabilities and deficit	$ 4,799	9,890	19,952	26,968	28,700

Operating Results
For the years ended December 31

	2003	2002	2001	2000	1999
Revenues					
Investment income	$ 108	313	470	749	747
Lease revenue	-	-	1,813	1,918	1,864
Interest from cash and portfolio investments	70	134	416	555	425
Other income	-	-	25	66	72
	178	447	2,724	3,288	3,108
Provision for losses on investments	136	132	3,818	620	445
Net revenue	42	315	(1,094)	2,668	2,663
Expenses					
Administration	223	377	563	391	380
Financing	243	516	2,391	2,565	2,453
Total expenses	466	893	2,954	2,956	2,833
Net loss	$ (424)	(578)	(4,048)	(288)	(170)

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Lloyd Boutilier
Businessman
Regina, Saskatchewan

Darrel Cunningham
Farmer
Lintlaw, Saskatchewan

Harwood Davies
Businessman
Watrous, Saskatchewan

Roland ("Rollie") Hardy
Businessman
Regina, Saskatchewan

Gordon Mertler
Businessman
Regina, Saskatchewan

Fund Manager

Saskatchewan Government Growth Fund Management Corporation, which has retained Crown Capital Partners Inc. to provide management services.

Crown Capital Partners Inc.
Brian A. Johnson, C.F.A., Managing Partner
Alan M. Rowe, C.A., Partner Responsible for SGGF
Christopher J. Anderson, C.F.A., Partner
B. Cameron Johnson, C.A., C.F.A., C.B.V., Partner
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